

## Message Text

SECRET

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ORIGIN SS-25

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S E C R E T STATE 106238 TOSEC 040161

EXDIS, FOR THE SECRETARY FROM TARNOFF

E.O. 11652: XGDS-3

TAGS: PFOR, IR

SUBJECT: TEXT OF SHAH'S NOVEMBER 1 LETTER

REF; STATE 106232

FOLLOWING IS TEXT OF MESSAGE FROM SHAH TO PRESIDENT  
FORD OF NOVEMBER 1, 1976 MENTIONED IN REFTEL.

QUOTE: DEAR MR. PRESIDENT, I THANK YOU FOR YOUR LETTER  
OF 29TH OCTOBER 1976 CONTAINING YOUR VIEWS ON VARIOUS  
QUESTIONS OF MUTUAL INTEREST.

AS YOU YOURSELF, MR. PRESIDENT, ARE AWARE, IRAN DID NOT  
INSIST ON AN OIL PRICE INCREASE AT THE BALI OPEC MEETING  
IN MAY, DESPITE THE FACT THAT MANY MEMBERS OF THE  
ORGANIZATION HAD PROVED THAT THE OIL EXPORTING COUNTRIES  
HAD LOST A GREAT DEAL OF THEIR PURCHASING POWER. THIS

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DECREASE IN OUR PURCHASING POWER HAS FOR SOME TIME NOW  
BEEN NO LESS THAN 40 PERCENT AND THAT FROM A RAPIDLY DE-  
PLETING FINITE PRODUCT. OUR HOPE IN BALI WAS THAT THE WORLD  
WOULD RECOVER AND, IN THE MEANTIME, THAT THE PARIS  
CONFERENCE BETWEEN NORTH AND SOUTH WOULD LEAD TO CERTAIN  
MEANINGFUL DEVELOPMENTS IN THE INTEREST OF ALL.

I WOULD LIKE TO REAFFIRM THE FACT THAT IRAN HAS ALL ALONG ADVOCATED TWO FUNDAMENTAL PRINCIPLES WITH REGARD TO THE ENERGY QUESTION. FIRSTLY, THAT IF OIL IS SOLD CHEAPLY, NO ALTERNATIVE SOURCE OF ENERGY WILL BE DEVELOPED AND THE WORLD DEPENDENCE ON THE RAPIDLY DEPLETING SUPPLIES OF OIL WILL CONTINUE TO INCREASE. AS I HAVE REPEATEDLY STRESSED IN THE PAST, THIS VITAL PRODUCT MUST BE PRESERVED FOR MORE NOBLE PURPOSES SUCH AS THE PRODUCTION OF PETROCHEMICALS INCLUDING FERTILIZERS AND NUMEROUS OTHER BENEFICIAL DERIVATIVES RATHER THAN FOR HEATING, LIGHTING AND POWER. SECONDLY, WE HAVE PROPOSED THAT THE SOLUTION OF THE WORLD'S ENERGY PROBLEM LIES IN THE IMPLEMENTATION OF EFFECTIVE PROGRAMMES FOR THE DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY AND OIL CONSERVATION. SUCH A DEVELOPMENT AND CONSERVATION CANNOT TAKE PLACE UNLESS THE PRICE OF OIL IS ADJUSTED TO THE LEVEL OF THAT REQUIRED TO DEVELOP AN ALTERNATIVE SOURCE OF ENERGY. IN ADDITION, THIS PRICE WILL HAVE TO BE PROTECTED AGAINST IMPORTED INFLATION THROUGH INDEXATION OR LINKING THE PRICE OF OIL TO THAT OF COMMODITIES AND SERVICES IMPORTED BY THE DEVELOPING COUNTRIES.

WITH REGARD TO YOUR REFERENCE, MR. PRESIDENT, TO THE PROGRESS ACHIEVED BY THE INDUSTRIALIZED COUNTRIES IN CONTROLLING INFLATION, I MUST POINT OUT THAT THIS MAY BE THE CASE WITH THE UNITED STATES OF AMERICA, THE FEDERAL REPUBLIC OF GERMANY AND JAPAN. ON THE OTHER HAND, WE KNOW THAT MANY OF THE ECONOMIES OF THE DEVELOPED COUNTRIES OF THE WORLD ARE SICK AND IN A PRECARIOUS STATE. WE ARE  
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PURCHASING COMMODITIES ALSO FROM THE UNITED KINGDOM, FRANCE AND ITALY AND WE FIND THAT THEIR INFLATION IS RUNNING VERY HIGH SOMETIMES EVEN AT THE RATE OF MORE THAN 20 PERCENT. I REALIZE THAT THEIR BALANCE OF PAYMENTS SITUATION REMAINS CRITICAL, BUT THIS CERTAINLY DOES NOT JUSTIFY OUR COMMITTING SUICIDE BY PAYING FOR THEIR FAILURE OR INABILITY TO PUT THEIR HOUSE IN ORDER BY SUCCEEDING IN MAKING THE NECESSARY ADJUSTMENTS IN THEIR ECONOMY THROUGH DOMESTIC MEASURES.

THE UNITED STATES OF AMERICA TWO YEARS AGO INTRODUCED AN ENERGY INDEPENDENCE PROGRAMME TO BE ACHIEVED BY 1980. IN FACT SINCE THAT TIME, THE DEPENDENCE OF THE UNITED STATES ON IMPORTED OIL HAS INCREASED TO 45 PERCENT AND IN 1976 ALONG THE IMPORTS OF OIL INTO YOUR COUNTRY ARE EXPECTED TO RISE BY NEARLY 20 PERCENT. CONCERNING IRAN'S POSITION, I FEEL CONSTRAINED TO SAY THAT NOT ONLY HAS OUR PURCHASING POWER BEEN ERODED BY 40 PERCENT, BUT WE ALSO EXPERIENCED A SHARPER DECLINE IN OUR OIL EXPORTS IN

1975 AND IN EARLY 1976. FURTHERMORE, THOUGH THE

THE INDUSTRIALIZED COUNTRIES HAVE BEEN MAKING EFFORTS TO REDUCE INFLATION, THESE MEASURES HAVE BEEN ONLY PARTIALLY SUCCESSFUL IN RELATION TO DOMESTIC PRICES WHILE THEIR EXPORT PRICES HAVE CONTINUED TO RISE AS RAPIDLY AS IN THE PAST. IN THIS RESPECT, MY COUNTRY HAS IN SOME CASES, ESPECIALLY WITH REGARD TO THE UNITED STATES, BEEN PURCHASING ITEMS IN 1976 AT PRICES 400 PERCENT HIGHER THAN THOSE THAT PREVAILED IN 1973. THUS OUR TREASURY IS FEELING A MUCH GREATER LOSS OF REVENUES IN REAL TERMS. AS FOR YOUR REFERENCE TO THE PRICE OF GRAIN, I WOULD LIKE TO DRAW YOUR ATTENTION, MR. PRESIDENT, TO THE FACT THAT UNLIKE PETROLEUM, WHEAT IS A RENEWABLE COMMODITY AND THE FACTORS DETERMINING THE PRICE OF THESE ITEMS ARE QUITE DIFFERENT. MOREOVER, THE RECENT DECLINE IN WORLD WHEAT PRICES WAS DUE TO THE BUMPER CROPS IN THE UNITED STATES,

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THE SOVIET UNION AND IN MANY OTHER COUNTRIES INCLUDING MY OWN WHERE THIS YEAR WE WILL NOT REQUIRE TO PURCHASE WHEAT FROM ABROAD.

YOU ARE NO DOUBT FULLY AWARE, MR. PRESIDENT, OF MY DEEP CONCERN FOR THE NEED TO MAINTAIN CLOSE COOPERATION BETWEEN OUR TWO COUNTRIES. HOWEVER, IF THERE IS ANY OPPOSITION IN THE CONGRESS AND IN OTHER CIRCLES TO SEE IRAN PROSPEROUS AND MILITARILY STRONG, THERE ARE MANY OTHER SOURCES OF SUPPLY TO WHICH WE CAN TURN FOR OUR LIFE IS NOT IN THEIR HANDS. IF THESE CIRCLES ARE IRRESPONSIBLE THEN IT IS HOPELESS, BUT SHOULD THEY BE RESPONSIBLE, THEY WILL CERTAINLY REGRET THEIR ATTITUDE TO MY COUNTRY. NOTHING COULD PROVOKE MORE REACTION IN US THAN THIS THREATENING TONE FROM CERTAIN CIRCLES AND THEIR PATERNALISTIC ATTITUDE.

AS YOU WILL NO DOUBT AGREE, MR. PRESIDENT, IRAN HAS ALWAYS FOLLOWED A POLICY OF RESTRAINT AND MODERATION, BUT THE INCREDIBLE ECONOMIC SITUATION OF SOME WESTERN COUNTRIES IS SUCH THAT HISTORY WILL NOT FORGIVE US SHOULD WE DEplete OUR FINITE AND MOST PRECIOUS WEALTH JUST TO ALLOW THESE COUNTRIES TO CONTINUE THEIR POLITICIZING AND INDECISION. NEVERTHELESS, YOU MAY REST ASSURED, MR. PRESIDENT, THAT IN THE COUNCILS OF OPEC, IRAN HAS ADOPTED ONE OF THE MOST MODERATE ATTITUDES.

WITH BEST WISHES AND KINDEST REGARDS, SINCERELY  
M. R. PAHLAVI

END TEXT CHRISTOPHER

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